

# Chapter 2

## *Allowable Costs*

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### 2.1 GENERAL

This chapter sets forth basic principals for determining allowable costs under the Highway Traffic Safety Program. These principles are not intended to identify the circumstances or dictate the extent of funding under a particular grant.

The application of these principles is based on the fundamental premise that:

- Applicant agencies are responsible for efficient and effective administration of the grant through the application of sound management practices.
- Applicant agencies assume responsibility for administering grant funds in a manner consistent with underlying agreements, grant objectives, and the terms and conditions of the grant agreement.
- Costs are compatible with the applicable federal requirements from:
  - Highway Safety Grant Funding Policy for NHTSA Field Administered Grants
  - OMB Circular A-87; Cost Principles for State and Local Governments
  - OMB Circular A-21; Cost Principles for Educational Institutions
  - OMB Circular A-122; Cost Principles for Non-Profit Organizations
  - OMB Circular A-133; Audits of States, Local Governments, and Non-Profit Organizations

### 2.2 DEFINITIONS

#### Applicable Credits

Receipts or reductions of expenditure-type transactions that offset or reduce expense items allocable to grants as direct or indirect costs. Examples are: purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges.

#### Cost

The amount of money or value exchanged for property or services as determined on a cash, accrual, or other recognized accounting system.

#### Cost Allocation Plan

The documentation, including the allocation methods used to identify, accumulate, and distribute allowable indirect costs under grants and contracts.

#### Direct Allocations

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Joint costs, such as depreciation, rental costs, operation and maintenance of facilities, telephone expenses, and the like that are prorated individually as direct costs using a base which accurately measures the benefits received by each award or other activity. Direct allocations must be identified in the budget and distribution methods approved by OTS to be reimbursed as a grant cost.

#### Direct Costs

Those expenses which can be charged directly as a part of the cost of a product or service, or of a government unit or operating unit. These are distinguished from overhead and other indirect costs which must be prorated among several products or services, or governmental units or operating units.

#### Indirect Costs

Those expenses incurred which from their nature cannot be readily associated with a specific grant. Like overhead expenses, these expenses are prorated to the grant based on benefit received from their incurrence.

### **2.3 ELIGIBILITY REQUIREMENTS**

To be eligible for reimbursement under OTS grants, costs must:

- Be a necessary and reasonable grant cost
- Not be a general governmental expense
- Be authorized or not prohibited under State or local laws/regulations
- Be consistent with applicant agency's regular procedures and apply uniformly to both grant related activities and non-grant related activities
- Be net of all applicable credits and adequately documented
- Be authorized in the budget of the grant agreement
- Not be a prepayment
- Not be incurred before or after the grant period
- Not be unreimbursed costs shifted from another grant

### **2.4 TOTAL GRANT COSTS**

Total grant costs consist of the allowable direct cost of the grant, plus its allocable portion of allowable indirect costs, less applicable credits. There is no universal rule for classifying specific cost items as either direct or indirect. Under different accounting

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systems, a cost may be direct with respect to a specific service or function, but indirect with respect to the grant. It is, however, essential that the accounting system treat each item of cost consistently, either as direct, direct allocation, or an indirect cost.

#### 2.5 ALLOWABLE DIRECT COSTS

All direct costs are categorized in the grant agreement as personnel, travel, contractual services, nonexpendable property, or other direct costs. Examples of typical direct costs reimbursable for each category under highway traffic safety grants are listed below. For a complete list of allowable costs for federal programs, see the applicable OMB Circular on cost principles referenced in 2.1.

##### 2.5.1 Personnel Costs

This category should contain only the direct compensation for salaries and fringe benefits of applicant agency employees hired expressly for the grant and for the time and effort spent on grant related activities.

- Salaries – May include wages, salaries, or special compensations provided the cost for the individual employee is (a) reasonable for the services rendered, and (b) follows an appointment made in accordance with state or local laws and rules and meets federal requirements.

**Note: Reimbursements of individual salaries that result in a salary savings to the applicant agency are not allowable.**

- Fringe Benefits – Employee benefits for authorized absences such as annual leave and sick leave, as well as employer's contributions to social security, health insurance, workmen's compensation, and the like provided they are granted under approved plans, and are distributed equitably to the grant and all other activities.

**Note: Costs for authorized absences are only reimbursable up to the amount earned during the term of the grant.**

##### 2.5.2 Travel Expenses

This category should contain the direct expenses for grant related travel incurred by personnel identified in the budget. Allowable costs include transportation, subsistence, and lodging, incurred in accordance with applicant agencies documented travel policies. If lodging policies do not contain maximum allowable rates, lodging costs should not exceed

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the state rate unless written justification is submitted and approved by OTS. If documented policies do not exist, state travel policies will apply. These may be obtained from your Coordinator.

**Note: Out of state trips require individual written trip approval from OTS prior to incurring costs unless already identified in the Schedule B and B-1 of the Grant Agreement.**

#### 2.5.3 Contractual Services

This category should contain any professional services and associated costs necessary to complete grant objectives that are not available through the applicant agency and require contractual agreements in accordance with the applicant agency's normal procurement procedures. This category also applies to mini-grants to sub-recipients completing grant objectives through an award process.

**Note: All draft subcontracts must be submitted to OTS for reimbursement approval prior to fully executing contract.**

#### 2.5.4 Equipment

This category should include only those nonexpendable, tangible personal property items with a useful life of more than one year, which cost \$5,000 or more per item, and are specifically required to carry out grant activities. The total cost of equipment includes modifications, attachments, accessories, or auxiliary apparatus necessary to make it usable for grant purposes including tax, shipping, and installation, excluding any discounts. Examples of typical traffic safety related equipment include motorcycles, radar trailers, and some extrication equipment.

#### 2.5.5 Other Direct Costs

This category should include direct items of expense, such as educational materials, promotional items, supplies, minor equipment, and services not requiring contractual agreements, acquired or consumed for purposes of the grant.

**Note: The cost of any items or services, which would not otherwise be allowable, using applicant agency's general funds are not allowable using grant funds. In addition any joint costs that are prorated as direct costs to the grant must have allocation method reviewed for reimbursement eligibility in advance by OTS.**

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#### 2.6 INDIRECT COSTS

Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Typical indirect costs may include depreciation and use allowances on buildings and equipment, the costs of operating and maintaining facilities and equipment, and general administration and general expenses.

The Office of Traffic Safety (OTS), in accordance with permissible limits of federal funding guidelines (OMB Circular A-87), limits indirect cost reimbursement for its grant agreements and their primary contractual service agreements based on the following policies.

2.6.1 Allowable indirect costs, as defined in the circular, shall be reimbursed at a predetermined fixed rate to agencies that have an approved Indirect Cost Rate Proposal on file using the following guidelines:

- Up to 15 percent of total direct personnel costs, including fringe benefits, of the applicant agency if personnel costs are included in the budget.
- Administrative oversight charges in which the applicant agency subcontracts the grant activities or services to a second external entity, shall be limited to three (3) percent of the subcontract amount, excluding property.

**Note: Depending on the nature of the grant and/or budgeted costs, there may be exceptions to the two criteria mentioned above. Indirect cost can be negotiated for these exceptions. Also, some grant revisions may result in re-negotiations of indirect costs. In some cases, this may result in a lesser amount approved than originally negotiated.**

#### 2.7 ALLOWABLE COSTS WITH SPECIFIC CONDITIONS OR LIMITATIONS

The following is a list of selected costs that are allowable under specific conditions. Contact your Coordinator for additional guidance on allowable costs or refer to the appropriate OMB Circular for cost principles referenced in 2.3(a).

- Travel for Out-of-State Individuals – Costs for travel related expenses for out-of-state individuals are allowable if expenses are for specific services benefiting the grant.

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- New Training Curricula and Materials – Costs for development are allowable if they will not duplicate materials already developed for similar purposes by U.S. DOT/NHTSA/FHWA or the State of California.
- Meetings and Conference – Costs of meetings and conferences, where the primary purpose is the dissemination of technical information, are allowable, including meals, transportation, rental of meeting facilities, and other incidental costs. Adequate records must be maintained to document that the primary purpose of the meeting was for dissemination of technical information.
- Promotional Items and Activities – Costs are allowable to support a grant with promotional activities, which offer incentives or encourage the general public to adopt highway safety practices. Documentation must be available to show activities do not violate local laws. Promotional items and activities must directly relate to the grant objectives and contain a traffic safety message related to the grant.

**Note: Cash Prizes/Gift Certificates and Scholarships will be considered on an exception basis as allowable costs. OTS must approve a separate written request detailing special circumstances for their allowances. These authorizations will be considered on a limited basis.**

- Paid Media – Costs are allowed for the purchase of program advertising space in the mass communication media such as television, radio time, cinema, internet, print media, and billboard space. However, special reporting documents are required. Additional information is available from your Coordinator.

**Note: Costs should be displayed as a separate line item in the budget specifically identifying paid media.**

## 2.8 UNALLOWABLE COSTS FOR SELECTED ITEMS

The following is a list of selected costs that are ineligible for reimbursement under the Highway Traffic Safety Program. For additional information relating to unallowable costs please refer to the appropriate OMB Circular on cost principles referenced in 2.3(a) or ask your Coordinator.

### Facilities and Construction

- Highway construction, maintenance, or design

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- Construction or reconstruction of permanent facilities, such as paving, driving ranges, towers, and non-portable skid pads
- Highway safety appurtenances including longitudinal barriers (such as guardrails), regulatory and warning signs and supports, field reference markers, luminaire supports, and utility poles
- Construction, rehabilitation, or remodeling of any building or structure
- Cost of land
- Purchase of office furnishings and fixtures such as but not limited to the following:

Desk	Credenza	Storage Cabinet
Chair	Book	Portable Partition
Table	Filing Cabinet	Picture, Wall Clock
Shelving	Floor Covering	Draperies & Hardware
Coat Rack	Office Planter	Fixed Lighting/Lamp

Equipment – Traffic signal preemption systems

Training – Cost of individual's salary while pursuing training or the salary of the individual's replacement, unless salary is already supported by grant.

Program Administration

- Supplanting, which includes the use of funds for routine and/or existing governmental expenditures, or activities that constitute general expenses required to carry out overall responsibilities of governmental entity
- Coffee, bottled water, or any other beverages, candy, donuts, snacks, or any other food items (See 2.7, Meetings and Conferences, for meal exception)
- Entertainment costs including amusement, and social activities and any costs directly associated with such costs (such as tickets to shows or sporting events, meals, lodging, rentals, transportation, and gratuities)
- Alcoholic beverages for any consumption purposes including controlled training settings for law enforcement
- Cost of overnight or courier mail service

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- Contributions and donations, including cash, property, and services to others, regardless of the recipient
- Cost of fund raising, including financial campaigns, solicitation of gifts, and similar expenses incurred to raise capital or obtain contributions
- Contingency provisions for contributions to a contingency reserve or similar provision for unforeseen events excluding self-insurance reserves
- Fines, penalties, damages, and other settlements resulting from violations or non-compliance
- Costs of commercial insurance that protects contractor for correction of defects in materials or workmanship
- Costs not recovered under one grant agreement are unallowable under other grant agreements.